

Message Text

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ACTION EA-14

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NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20 ACDA-19

IO-14 AID-20 COME-00 EB-11 FRB-02 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 FEA-02 SCI-06

AGR-20 INT-08 SPM-01 DRC-01 /207 W

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R 300244Z MAY 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 2543

INFO AMEMBASSY BANGKOK

AMEMBASSY CANBERRA

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY SAIGON

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

USIA WASHDC

CINCPAC

AMCONSUL MEDAN

AMCONSUL SURABAYA

S E C R E T SECTION 1 OF 3 JAKARTA 6571

CINCPAC FOR POLAD

EO 11652: GDS

TAGS: PINT,EGEN,PFOR,ID

SUBJECT: QUARTERLY ASSESSMENT FOR INDONESIA: QUARTER
ENDING MAY 31

REF : JAKARTA 2574

1. SUMMARY: THIS QUARTERLY ASSESSMENT DEALS WITH FOUR
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MAIN AREAS OF CURRENT INDONESIAN POLICIES AND THEIR

SIGNIFICANCE FOR U.S. OBJECTIVES: DOMESTIC POLICIES, ASEAN, INDOCHINA AND ENERGY. WE CONCLUDE, THAT, AS OF THIS MOMENT, INDONESIA'S ASEAN, INDOCHINA AND ENERGY (EXCEPT FOR PRICE) POLICIES MAKE CONTRIBUTIONS TO OUR OBJECTIVES; FUTURE OF INDONESIAN ROLE IN ICCS IS IN DOUBT, HOWEVER, AND MIXED AND SOMEWHAT WEAKENED INTERNAL PICTURE MAY INHIBIT A STRONGER INDONESIAN ROLE IN ALL AREAS. END SUMMARY.

2. IN THIS ASSESSMENT, WE SEEK TO ANSWER TWO QUESTIONS: "WHERE ARE KEY INDONESIAN POLICIES LEADING?" AND "HOW DO THEY AFFECT OUR OWN NATIONAL OBJECTIVES?" WE HAVE CHOSEN TO FOCUS ON FOUR SIGNIFICANT POLICY AREAS: DOMESTIC, ASEAN, VIETNAM AND ENERGY.

3. INTERNAL: INDONESIA'S INTERNAL SCENE AND LEADERSHIP REMAIN DEEPLY AFFECTED BY EVENTS OF MID-JANUARY. PRESIDENT SUHARTO APPEARS TO HAVE BEEN SEVERELY SHOCKED BY THE JANUARY RIOTS AND TO BELIEVE THEY WERE PART OF A PLOT AGAINST HIS REGIME, INVOLVING CIVILIANS OF PSI (SOCIALIST) ORIENTATION AND OTHER ALLEGEDLY ANTI-GOVERNMENT FORCES, ALTHOUGH, TO US, SUPPORTING EVIDENCE IS LACKING. BELIEF HAS HAD NOTICEABLE PSYCHOLOGICAL EFFECT, MAKING HIM LESS SURE OF THOSE AROUND HIM, MORE INTOLERANT OF LOYAL DISSENT, MORE INCLINED TO RELY UPON LONG-TIME MILITARY ASSOCIATES AND, THUS, MORE SUBJECT TO ANTI-INTELLECTUAL ARGUMENTS -- AS WELL AS TO OPPORTUNISTIC MILITARY VOICES JOCKEYING FOR POSITION. IN TROUBLED POST JANUARY ATMOSPHERE, TRADITIONAL TENDENCIES TOWARD CONCENTRATION OF AUTHORITY IN PRESIDENT AND WEAKNESS OF COUNSEL FROM BELOW HAVE BEEN INTENSIFIED. EVENTS HAVE ALSO CONVINCED PRESIDENT OF NEED FOR LESS OSTENTATION AND GREATER ATTENTION TO NARROWING GAP BETWEEN RICH AND POOR, ALTHOUGH MEASURES TAKEN SO FAR HAVE BEEN LARGELY OF COSMETIC NATURE. POLITICO-ECONOMIC PRESSURES HAVE LED TO A REVIVAL OF MOVES (ANNOUNCED BUT NOT YET IMPLEMENTED) AGAINST OSTENSIBLE CHINESE ROLE IN ECONOMY, TO ACCELERATION OF INDONESIANIZATION, AND ATTEMPTS AT GREATER PROTECTION FOR LOCAL INDUSTRY. JANUARY EVENTS ALSO MADE LEADERSHIP AWARE THAT PROLONGED

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INFLATION IN PAST TWO YEARS IS SOURCE OF BROAD POPULAR DISCONTENT; RESULT HAS BEEN MODEST GOVERNMENT MEASURES TO RESTRAIN CREDIT, REVERSE DIS-SAVINGS AND CLEAR UP PORT CONGESTION. ABILITY OF GOI TO MAKE MEASURES EFFECTIVE IN REDUCING RATE OF INFLATION FROM CURRENT 50 PCT TO 20 PCT IS MUCH IN DOUBT. PRESIDENT SUHARTO HAS MADE MAJOR CHANGES IN KEY ARMY POSITIONS TO FILL VACANCIES CREATED BY REMOVAL OF GENERALS SUMITRO AND

SUTOPO JUWONO -- BUT HE HAS DEFERRED ACTION ON MUCH RUMORED CABINET RESHUFFLE, APPARENTLY PREFERRING TO MOVE ON ONE FRONT AT A TIME.

4. BULK OF GOVERNMENT ECONOMIC ACTIVITY, HOWEVER, CENTERS ON LAUNCHING OF SECOND FIVE YEAR PLAN. RUMORS OF EARLY DEPARTURE TECHNOCRATS AND THEIR INTERNATIONAL ASSOCIATES LARGELY RESPONSIBLE FOR FRAMING NEW PLAN APPEAR SO FAR UNFOUNDED. SUCCESSFUL OUTCOME IGGI MEETING PROBABLY MEANS RENEWED LEASE FOR TECHNOCRATS ALTHOUGH (A) AREA OF DEVELOPMENT ACTIVITIES AND POLICIES SUBJECT TO THEIR INFLUENCE IS CONTRACTING; AND (B) PERSISTENT REPORTS SUGGEST PRESIDENT MAY GIVE FORMER PRESIDENTIAL ASSISTANTS RENEWED AND STRENGTHENED MANDATE TO LOOK OVER THEIR SHOULDERS. DESPITE SHARPLY RISING NATIONAL REVENUES, PROSPECTS FOR NEXT PLAN DIMMED BY SHARP ESCALATION IN WORLD PRICES RICE, FERTILIZER, CEMENT, IRON, STEEL AND COTTON AND BY SERIOUS DOMESTIC INFLATION AND UNEMPLOYMENT ON TOP OF PERSISTENT OVERWHELMING PROBLEMS OF POVERTY AND POPULATION. NATIONAL OIL COMPANY PERTAMINA CONTINUES TO REPRESENT DYNAMIC ALTERNATIVE TO REGULAR DEVELOPMENT AGENCIES, MOVING EACH MONTH INTO NEW ECONOMIC FIELDS; THERE CONTINUES TO BE, HOWEVER, A LACK OF COOPERATION IN FINANCE AND PLANNING BETWEEN PERTAMINA AND CENTRAL GOVERNMENT. PRIVATE FOREIGN ENTERPRISE NOT ASSOCIATED WITH PERTAMINA FINDS ATMOSPHERE LESS CERTAIN, FEELS IMPACT OF GREATER EMPHASIS ON LOCAL EQUITY AND MANPOWER PARTICIPATION, AND CLOSURE OR RUMOR OF CLOSURE OF CERTAIN SECTORS TO FOREIGN INVESTMENT. PRESENT FOREIGN INVESTMENT COMMUNITY REMAINS GENERALLY BULLISH BUT WE BELIEVE MANY POTENTIAL NEW INVESTORS HAVE BEEN PUT OFF BY DIFFICULTIES OR UNCERTAINTIES OF
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CURRENT SITUATION. CONTINUED HOLD-UP IN TERMS OF NEW MINING CONTRACTS LIMITS SCOPE OF FUTURE U.S. INVESTMENT, WHICH IS CONCENTRATED HEAVILY IN MINING SECTOR.

5. ASEAN: INDONESIA ATTACHES HIGH IMPORTANCE TO CREATION OF MEANINGFUL ASEAN BLOC AND TO LEADERSHIP OF THAT BLOC. LATEST MEETING GAVE THEM SECRETARIAT AND FURTHER SOLIDIFIED ASEAN, AT LEAST ON PAPER. BECAUSE OF DANGERS TO ASEAN UNITY AND IMPLICATIONS FOR INDONESIA, PRESIDENT SUHARTO MAKING SPECIAL EFFORT MEDIATE PHILIPPINE-MALAYSIAN SABAH DISPUTE. HE HAS MET INDIVIDUALLY WITH EACH PRESIDENT, BUT NEXT STEP

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USIA WASHDC

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S E C R E T SECTION 2 OF 3 JAKARTA 6571

CINCPAC FOR POLAD

IN COMPLICATED QUESTION UNCERTAIN.

6. INDOCHINA: BOTH VIETNAM PROBLEM AND ICCS INVOLVEMENT
CURRENTLY TROUBLE INDONESIAN LEADERSHIP. THEY WOULD
PREFER AVOID COLLAPSE OF NON-COMMUNISTS IN VIETNAM BUT
THEY WOULD NOT WISH TO BE AMONG LAST HANGING ON TO DOOMED
REGIME. WHILE NOT OVERLY OPTIMISTIC RE PROSPECTS OF LON
NOL GOVERNMENT IN CAMBODIA, CLEAR IDENTIFICATION OF
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SIHANOUK WITH PEKING, HISTORY OF INDONESIAN SUPPORT FOR GKR SINCE 1970 JAKARTA CONFERENCE, AND INDONESIAN DISLIKE OF NON-ASIAN MEDDLING IN CAMBODIAN QUESTION HAVE SO FAR KEPT GOI AN ACTIVE SUPPORTER OF GKR IN INTERNATIONAL FORUMS SUCH AS UN AND ASEAN. AS A NON-ALIGNED NATION THE INDONESIAN ARE NOT COMFORTABLE WITH ICCS SITUATION IN WHICH THEY CANNOT CARRY OUT THEIR ASSIGNED TASK AND WHERE THEY ARE IN CONFRONTATION WITH EASTERN EUROPEANS AND WITH VIETNAMESE FORCES WHICH THEY BELIEVE MAY WELL, IN LONG RUN, COME OUT ON TOP. TO THEM, POLITICAL SOLUTION SEEMS VERY REMOTE. THERE ARE UNDERLYING CONCERNS OVER COST OF ICCS AND OVER DETERIORATING SECURITY SITUATION WHICH COULD INVOLVE CASUALTIES TO INDONESIAN CONTINGENT.

7. ENERGY: IN ENERGY, THEY ARE FEELING THEIR OATS. THEY HAVE OIL AND GAS WHICH THE WORLD NEEDS AND ARE COMMITTED TO FULLY DEVELOPING THESE RESOURCES. THEY BELIEVE STRONGLY THEY HAVE BEEN RESTRAINED IN PRICE, BUT CANNOT AFFORD TO LAG BEHIND OTHERS. THEIR PRODUCTION SHARING AGREEMENTS GIVE INDUSTRY REMARKABLE STABILITY; RELATIONS WITH EXTERNAL PARTICIPANTS ARE GOOD. IN INTERNATIONAL SCENE, THEY WILL GO THEIR WAY, GENERALLY DIVORCING ECONOMICS AND POLITICS, BUT WILL NOT EASILY PERMIT OTHERS, PARTICULARLY CONSUMERS, TO SET CONDITIONS BEHIND THEIR BACKS.

8. WHAT DO THESE CIRCUMSTANCES MEAN FOR OUR CURRENT FOREIGN POLICY OBJECTIVES -- WHICH WE ASSUME TO BE (A) STRONG, STABLE INDONESIA ORIENTED GENERALLY TOWARD US AND MAKING CONTRIBUTION TO PEACE AND STABILITY IN AREA; (B) INDONESIAN COOPERATION IN STABILIZING ENERGY POLICIES, INCLUDING PRICE; AND (C) ORDERLY DEVELOPMENT WITH CLIMATE SATISFACTORY FOR U.S. INVESTMENT AND TRADE.

9. INTERNAL ORIENTATION REMAINS GENERALLY FAVORABLE TO US, ALTHOUGH EVENTS AND PRESSURES CULMINATING IN JANUARY RIOTS HAVE BROUGHT DEGREE OF UNCERTAINTY INTO BOTH DOMESTIC AND FOREIGN POLICIES. SLIGHT MOVES TOWARD SOVIETS, OCCASIONAL UNDERCURRENTS OF DOUBT ABOUT U.S. INTENTIONS, SOME DIVISION WITHIN MILITARY,
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RUMBLING NATIONALISM, REMIND US GOI DIRECTIONS CANNOT BE TAKEN FOR GRANTED. MEASURES TAKEN SINCE JANUARY 15, INCLUDING ARREST LIMITED NUMBER STUDENTS, AND INTELLECTUALS, RESTRICTIONS ON PROMINENT INTELLECTUALS

AND CLOSING OF SOME NEWSPAPERS, MAKE REGIME LESS APPEALING TO U.S. SUDDEN ATTENTION TO THESE ASPECTS REGIME, TO SIZEABLE POLITICAL PRISONER LEGACY FROM 1965-68, OR TO CONTINUING CORRUPTION COULD REDUCE SUPPORT IN CONGRESS FOR ON-GOING ECONOMIC AND MILITARY ASSISTANCE AND COMPLICATE OUR ABILITY SUPPORT OTHER OBJECTIVES WITH REGIME. SO FAR, RISK OF TOO CLOSE IDENTITY WITH REGIME IS NOT FACTOR INSIDE INDONESIA.

10. IN ECONOMIC SPHERE, THERE HAS BEEN ACCELERATED EXPANSION OF TRADE OPPORTUNITIES WHICH MIGHT BE USED TO OFFSET \$700 MILLION DEFICIT IN OUR BILATERAL TRADE BALANCE CAUSED BY OIL PRICE INCREASES. ON INVESTMENT SIDE, POLICIES PERMITTING ACTIVE ROLE FOR FOREIGN PRIVATE INVESTMENT ARE BEING INCREASINGLY CIRCUMSCRIBED BUT STILL PROVIDE U.S. ACCESS ON REASONABLY GOOD TERMS TO RESOURCES. INCREASED OIL EARNINGS HAVE GIVEN NEW FILLIP TO EXPANSION OF STATE ENTERPRISE AS PRINCIPLE VEHICLE OF DEVELOPMENT IN RESOURCE AND INDUSTRIAL SECTORS. WIDE ACCESS BY

JAN TO INDONESIAN RESOURCES CONSISTENT WITH U.S. OBJECTIVE OF STRONG JAPAN. U.S. PRICES AND ACCESS TO AUTHORITIES, PLUS INDONESIAN DESIRE PROMOTE BALANCE IN FOREIGN BUSINESS INTERESTS, GIVE U.S. FIRMS WILLING WORK HARD AT SELLING THEMSELVES EQUAL BREAK IN COMMERCIAL COMPETITION. WHILE OUR POSITION IS, AT MOMENT, RELATIVELY SOUND, TREMENDOUS ECONOMIC AND SOCIAL PROBLEMS OF COUNTRY COULD, DESPITE REVENUES, BRING UPHEAVAL WHICH WOULD AFFECT ALL OUR INTERESTS. AT THIS MOMENT WE DO NOT SEE IT, BUT WE SHARE AN AWARENESS OF IT WITH INDONESIAN AUTHORITIES.

11. ASEAN: INDONESIA'S ASEAN ROLE FITS WELL OUR OBJECTIVES OF REGIONAL STABILITY AND NIXON DOCTRINE. THIS QUALIFIED, SOMEWHAT, BY TENTATIVE NATURE OF ASEAN APPROACH TO SUCH PROBLEMS AS VIETNAM, AND
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INDONESIAN HOPES FOR ULTIMATE ADHERENCE NORTH VIETNAM, AND POSSIBLY, PRG.

12. INDOCHINA: INDONESIAN PARTICIPATION IN ICCS AND SUPPORT FOR LON NOL ARE AREAS OF GREATEST CONCLUENCE WITH SIGNIFICANT U.S. INTERESTS. BREAKDOWN OF CONTACTS BETWEEN VARIOUS VIETNAM ELEMENTS, FRUSTRATION OVER IMPASSE IN ICCS, AND DISLIKE OF CONFRONTATION ROLE THREATEN THIS CONFLUENCE, PARTICULARLY IN REGARD TO VIETNAM AND ICCS. FUTURE OF THIS COMMON OBJECTIVE IN DOUBT AT THIS WRITING. OVERLAPPING OFFSHORE BOUNDARY CLAIMS IN

SOUTH CHINA SEA COULD BECOME SERIOUS IRRITANT IN GOI/
GVN RELATIONS.

13. ENERGY: IN THIS FIELD, INDONESIA IS DEFINITELY IN
CAMP OF PRODUCING NATIONS ON MATTERS OF PRICE AND
IN GENERAL OPPOSES COLLUSION BY CONSUMING COUNTRIES.
ON OTHER SIDE, RELATIVE STABILITY OF OIL COMPANY RELA-
TIONSIPS, WIDE USE OF U.S. CONTRACTORS AND INTEREST IN
MAXIMIZING PRODUCTION DO MEET CERTAIN U.S. INTEESTS.
WHICH EVER WAY INDONESIA GOES, ITS RELATIVELY
MINOR PLACE AMONG OIL AND GAS PRODUCERS GIVES IT
LIMITED INFLUENCE ON MAJOR ISSUES. ON OTHER HAND EVEN
THOUGH SMALLBY MID-EAST STANDARDS, INDONEIAN PRODUC-
TION OF 1.5 MILLION B/D PROVIDES ALTERNATE ENERGY SOURCE
OF SPECIAL IMPORTANCE TO JPANESE; WITH POSSIBLE DIVERSIONS
AND FUTURE INCREASE, THIS COULD BECOME OF GREATER
IMPORTANCE TO U.S. WEST COAST.

14. U.S. POLICIES: IN LIGHT THIS ASSESSMENT, WE ARE
CURRENTLY PURSUING THESE POLICIES:

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AGR-20 INT-08 SPM-01 DRC-01 /207 W
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R 300244Z MAY 74
FM AMEMBASSY JAKARTA
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AMEMBASSY TOKYO
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AMCONSUL MEDAN
AMCONSUL SURABAYA

S E C R E T SECTION 3 OF 3 JAKARTA 6571

CINCPAC FOR POLAD

A. INTERNAL: OUR ABILITY INFLUENCE INTERNAL SCENE IS LIMITED BY EXTREMELY SENSITIVE NATURE THOSE VERY ISSUES CAUSING PROBLEMS: DETENTIONS, CORRUPTION, PRESS RESTRICTIONS, INSUFFICIENT ATTENTION TO SOCIAL PROBLEMS AND TO NEED FOR GREATER SENSE OF PARTICIPATION AMONG CIVILIAN ELITE. WE CAN ONLY WORK QUIETLY TO REMIND KEY INDONESIANS OF POTENTIAL PROBLEMS, AT SAME TIME MAINTAINING SUFFICIENT CONTACT WITH DIVERSE SEGMENTS OF SOCIETY,
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INCLUDING "OUTS," TO PREVENT OUR TOTAL IDENTIFICATION WITH SUHARTO REGIME. THESE TIMES REQUIRE A SPECIAL ALERTNESS TO CONFLICTS WITHIN MILITARY AND FUTURE OF KNOWN PERSONALITIES AROUND PRESIDENT. WE CONTINUE TO ENCOURAGE CONSTRUCTIVE APPROACH TO INDONESIANIZATION, INCLUDING CONSIDERATION OF U.S. ASSISTANCE IN BUSINESS DEVELOPMENT. TO RESPOND OPPORTUNITIES IN NEW GROWTH SECTORS, WE CONTINUE FAVOR MAJOR PROJECT APPROACH IN HOPES OF BEING ABLE SWING SIGNIFICANT VOLUME OF PROCUREMENT TO U.S. SOURCES FOR RECAPTURE PETRODOLLARS.

B. AID: SPECIAL WORD REQUIRED ON ECONOMIC ASSISTANCE. QUESTION IS ASKED WHETHER LARGE-SCALE CONCESSIONAL AID STILL JUSTIFIED IN LIGHT GROWING INDONESIAN REVENUES AND POSSIBLE LESSENING CLOSE SUPPORT FOR U.S. REGIONAL POLICIES. OUR DIRECT ABILITY USE AID TO INFLUENCE INDONESIAN POLICIES DOES NOT NOW AND PROBABLY NEVER DID EXIST. OUR AID PROVIDES ACCESS AND ECONOMIC BENEFITS TO COUNTRY WITH MAJOR PROBLEMS AND SIGNIFICANT U.S. INTERESTS. ABRUPT WITHDRAWAL COULD UNDERCUT SOMETIMES BELEAGUED TECHNOCRATS AND WOULD THREATEN RAPPORT AND ACCESS AS WELL AS LONG TERM ECONOMIC AND COMMERCIAL RELATIONSHIPS AND OPPORTUNITIES RESULTING FROM AID. OUR POSTURE NOW IS ONE OF SMOOTH TRANSITION TO LESS CONCESSIONAL RELATIONSHIPS WITH APPROPRIATE TIMING TO AVOID POLITICAL REACTION. IN THIS WE ARE, SO FAR, SUCCESSFUL. GIVEN MILITARY REGIME, MILITARY AID HAS SPECIAL IMPORTANCE, BUT, AGAIN, IT SHOULD BE PHASED

INTO CREDIT SALES FROM GRANT. THIS IS IN PROGRESS, BUT SUDDEN CUT IN FUNDS COULD JEOPARDIZE HOPE FOR LONGER TERM LESS CONCESSIONAL RELATIONSHIP. IN ECONOMIC ASSISTANCE, EXPANSION OF EXIM FINANCING OFFERS SUITABLE MEANS OF ASSISTING INDONESIA DURING TRANSITION IN BROAD SPECTRUM OF RESOURCE-BASED DEVELOPMENT PROJECTS.

C. ASEAN: IN GENERAL WE ENDORSE POLICY OF DEMONSTRATED INTEREST WITHOUT INVOLVEMENT OR OVERT ENCOURAGEMENT. WE DOUBT ACTIVE U.S. ROLE TO SHAPE ASEAN DIRECTIONS WOULD RESULT IN ORGANIZATION MUCH DIFFERENT FROM THAT WHICH EXISTS, AND MIGHT GIVE RISE TO INDONESIAN RESENTMENT.

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D. INDOCHINA: WE ARE, AT THIS WRITING, SUGGESTING U.S. EFFORT STIFFEN INDONESIA'S BACK IN ICCS. WE HAVE CONFECTURED ON WHETHER INDONEISA, WITH ITS ASEA, THIRD WORLD, AND HANOI CONNECTIONS MIGHT PLAY USEFUL ROLE IN FURTHERING POLITICAL SETTLEMENT IN VIETNAM. THEY MIGHT IF THEY WOULD; WE DO NOT CURRENTLY DETECT SUCH AN INCLINATION. MOREOVER, SHOULD SAGION'S MILITARY POSITION SERIOUSLY DETERIORATE, IT IS OPEN TO QUESTION WHETHER INDONESIA -- AS MUCH AS THEY MIGHT REGRET SAIGON'S COLLAPSE -- WOULD BE WILLING UNDERTAKE ACTIVE ROLE TO HELP AVERT COLLAPSE IF SUCH ROLE INVOLVED RISK OF FAILURE. WE ALSO HOPE TO ENCOURAGE EARLY GOI/GVN SETTLEMENT OF OFFSHORE BOUNDARY DISPUTE WITHOUT BECOMING DIRECTLY INVOLVED.

E. ENERGY: OUR POLICY OF CLOSE CONSULTATION WITH INDONESIANS AND HELP TO U.S. COMPANIES GIVES US INFORMATION AND ACCESS WE NEED. WE SEE LITTLE PROSPECT, BEYOND THAT, OF INFLUENCING THEM IN AREAS WHERE WE DIFFER.

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Message Attributes

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